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INFO RHMFIUU/DEPT OF HOMELAND SECURITY WASHINGTON DC
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RUEHAC/AMEMBASSY ASUNCION 6067
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UNCLAS BUENOS AIRES 000619

SIPDIS

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SENSITIVE

TREASURY FOR LTRAN AND MMALLOY
TREASURY PASS IRS
DOE/NNSA FOR STEPHANIE CLARKE
WHA FOR WHA/BSC, WHA/AND AND WHA/EPSC
E FOR THOMAS PIERCE
EB/CBA FOR FMERMOUD, DENNIS WINSTEAD
EB/IFD/OIA FOR WSCHOLZ, MTRACTON
EB/IFD/OMA FOR AHAVILAND AND ASIROTIC
PASS NSC FOR JOSE CARDENAS
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
PASS USTR FOR EEISSENSTAT, SCRONIN
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER
US SOUTHCOM FOR POLAD

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [KTFN](#) [AR](#)

SUBJECT: CAPABLE ARGENTINE TAX AUTHORITY COOPERATING ON CSI, TRADE
TRANSPARENCY, SEEKS COOPERATION WITH DOE AND IRS.

¶1. This is an Action Request for the Departments of Energy (Paras.
2, 8) and Treasury (Paras. 4, 17).

Summary

¶2. (SBU) The Argentine revenue authority (AFIP) seeks to expand cooperation with the U.S. on a range of important areas, according to its Director Alberto Abad. Argentina is a Latin American leader in Container Security Initiative (CSI) implementation. Abad said AFIP seeks to expand its CSI pilot effort into a state-of-the-art multi-port program linked to a Megaport (WMD detection) surveillance program and wants to engage the U.S. Department of Energy to move forward on this. Post requests DoE support to facilitate GoA engagement on U.S. Megaport priorities.

¶3. (SBU) AFIP also wants to expand cooperation with the Embassy's Immigration and Customs Enforcement office on money laundering investigations related to tax evasion, contraband and smuggling through their joint Trade Transparency Unit. AFIP is separately working to control trademark piracy through a resolution allowing Customs to detain shipments that appear to violate trademarks registered in Argentina and the formation of a voluntary trademark registry, as well as participating in a public/private sector initiative to provide GoA enforcement agencies intelligence on counterfeit shipments. Abad said AFIP wants to augment cooperation with the Embassy and the USG in this field.

14. (SBU) AFIP has built a strong track record boosting GoA revenue collection, partially due to Argentina's dramatic economic expansion, but also to AFIP's efforts to develop a culture of taxpayer compliance and to reduce evasion. One important way AFIP is enhancing its anti-evasion efforts has been through the negotiation of cooperation and information exchange agreements with other national tax authorities, including those of Brazil, China, and Italy. AFIP Director Abad also asked Ambassador that the Embassy help facilitate negotiation of a cooperation and Information Exchange Agreement between AFIP and the U.S. IRS. Post requests U.S. Treasury support in facilitating direct contact between AFIP senior management and appropriate IRS officials. END SUMMARY

Container Security and Megaports Initiatives

15. (U) Ambassador, EconCouns, and ICE Attache met March 23 with Alberto Abad, GoA Director of Public Revenue (Administracion General de Ingresos Publicos -AFIP) and Customs Director Dr. Ricardo Echegaray, who reports to Abad. Abad explained that AFIP, now 11 years old, combines the previously independent 5,000 employee Customs Administration (Administracion Nacional de Aduanas - ANA) with the 17,000 employee Tax Authority (Direccion General Impositiva - DGI), and the GoA's social security administration. The GoA modeled this tri-partite organization on equivalent organizations in Spain and Brazil.

16. (SBU) Abad noted the GoA's ongoing commitment to port security in general and the USG's Container Security Initiative (CSI) in particular. He called Argentina a Latin American leader in CSI implementation, noting that the Argentine Customs authority had

recently purchased 9 mobile scanners (five of which are already in use) and would shortly open bidding for 3 fixed scanners.

17. (SBU) Customs Director Echegaray envisions expanding the CSI program from Buenos Aires' "Dock Sud" (South Dock) to additional ports with the goal of eventually pre-clearing all U.S. bound cargo containers from all Argentine port facilities. He noted, for example, that Zarate port on the Parana River in Buenos Aires province alone handles 11% of Argentine exports to the U.S. Echegaray asked that the U.S. CSI team consider facilitating inspections of regional ports from a base in Buenos Aires via remote inspection scanners. Dr. Echegaray called this vision modeled on the CSI program currently in place in Italy, where remote ports provide inspection and scanning capabilities to centrally based CSI teams.

18. (SBU) ACTION REQUEST: Finally, Abad noted that Echegaray's Customs agency is taking the lead in implementing the Megaport initiative (after a long bureaucratic battle inside the GoA), which guards against WMD shipment in container cargo. AFIP, he said, is purchasing additional equipment that will allow the nine already purchased mobile scanners to also be capable of screening for radioactive traces. He said AFIP wants to take up the offer of cooperation with the U.S. Dept of Energy. Ambassador welcomed that the GoA had sorted through which GoA agency will be in charge of the Megaport initiative and said we would query Washington about next steps. Note: Post has subsequently advised DOE/NNSA's Stephanie Clarke of the GoA's apparent readiness to move forward on this issue. Post requests DoE support to facilitate GoA engagement on U.S. Megaport priorities.

Trade Transparency Unit, Anti-Money Laundering Efforts

19. (SBU) Abad noted U.S.-Argentine anti-money laundering efforts include cooperation through a number of channels, including through the GoA's Financial Intelligence Unit (UIF). He said the Embassy's ICE office coordinates with GoA Customs through the Trade Transparency Unit (TTU) to combat trade-based money laundering linked to bill of lading manipulation. Through the TTU, Abad said,

AFIP hopes to expand cooperation with ICE on money laundering investigations related to tax evasion and contraband/smuggling.

¶10. (SBU) Ambassador noted that the U.S. Treasury was organizing the upcoming conference in Bogota on the development and implementation of effective anti-money laundering and counter-terrorist financing (AML/CFT) controls in the banking sector (U.S.-Latin America Private Sector Dialogue). He said the Embassy had passed conference invitations to Argentina's Central Bank, Ministry of Economy, UIF, National AML/CTF Coordinator, and Banking Associations, and agreed to provide details to AFIP. Abad noted the GoA's own AML enforcement efforts, in coordination with FATF and GAFISUD (the FATF style regional body for South America), and called the GoA's recent reorganization and strengthening of the UIF a proactive effort to address these serious threats. Of all foreign governments, Argentina is working most closely with the U.S. on these issues, he said, adding that the GoA in general and AFIP in particular wants to deepen its institutional relationship with the U.S. Embassy.

Trademark Enforcement

¶11. (SBU) Ambassador called IPR protection a top Mission priority and congratulated Abad on AFIP's recent destruction of several hundred thousand pirated CD's and cassettes. Abad noted that in October 2006, AFIP issued a resolution allowing Customs to detain shipments which appear to violate trademarks registered in Argentina. Customs can hold merchandise long enough to contact rights-holders, confirm authenticity, and release legitimate goods or initiate seizure proceedings for counterfeit. Additionally, AFIP announced February 22 the formation of a voluntary trademark registry, which will assist Customs in implementing this resolution. Abad called trademark piracy the crime of the 21st century. "Many are talking about trademark protection, but we are acting and have been doing so for the past five years," Abad said. This effort will only increase with this new AFIP resolution and the formation of a trademark registry, he added.

¶12. (SBU) Abad explained that AFIP's anti-piracy efforts complement those of the Ministry of Economy's Secretary of Industry and quasi-independent National Institute for Intellectual Property (INPI) who together take the broader lead on this patent, copyright and trademark protection. Etchegaray noted AFIP's participation in the Committee to Fight Piracy, a joint public/private sector initiative in which the private sector provides intelligence on counterfeit shipments to GoA enforcement agencies. Based on this intelligence, Aduanas has already confiscated over 70 tons of CDs, sunglasses, watches and other counterfeit items. ICE Attache noted that they are currently engaged in several joint investigations with the GoA targeting U.S. companies/individuals moving counterfeit or patent infringing goods into Argentina. Ambassador said the Embassy was moving to increase our work on IPR protection and would like to develop close cooperation with AFIP. Abad agreed. (Note: We will incorporate this cooperation with AFIP into Embassy's IPR action plan, currently under preparation. End Note)

AFIP's Success in Boosting Tax Collection

¶13. (SBU) In 1997, the IDB approved a \$96 million loan (plus \$96 million in GoA counterpart funds) to assist in AFIP's consolidation and modernization process. The IDB-funded program included five major components: legislation and regulation; administration; information technology; organizational development; and auditing. Both the GoA and IDB consider the AFIP modernization program quite successful, with significant declines in tax collection arrears and evasion, and better attention to large and smaller taxpayers.

¶14. (SBU) Ambassador noted that the IDB considers AFIP a model tax authority, praised AFIP's strong track record in boosting government

revenue collection, and asked how much of this increase was due to growth-led increases in VAT and income taxes and how much due to improved technology, taxpayer education, and enforcement efforts. Abad called 70% of the GoA's revenue growth due to economic expansion (including dramatically increased employment), the capture of larger share of the inflation-boosted income in non-indexed income taxes, and the imposition of new taxes (including export taxes and a financial transactions tax). However, he attributed fully 30% of increased revenues to AFIP's enhanced collection

efforts. Corporate tax collections should increase substantially in the 2007-8 periods, he added, as tax loss carry forwards of over ARP 120 billion (US\$ 40 billion) in company losses incurred in the aftermath of the 2001/2 economic meltdown expire.

¶15. (SBU) AFIP's efforts to develop a culture of taxpayer compliance and to reduce evasion will continue, Abad said, in part due to a significant increase in GoA budget resources allocated to the agency and improved information systems at its disposal. There is significant room for improvement in collections, he concluded, with Argentina's effective tax rate a relatively low 24%, well below Brazil's 37%, the European Union's 40%, and the U.S.' 32%. (Note: Most U.S. investors in Argentina, particularly in extractive industries, argue that their consolidated tax burden is significantly higher than 24%. End Note).

¶16. (SBU) One important way AFIP is enhancing its anti-evasion efforts has been through the negotiation of cooperation and information exchange agreements with a number of other national tax authorities, including those of Brazil, China (in 2006), and Italy (recently in 2007). Abad asked that the Embassy to help facilitate negotiation of a cooperation and Information Exchange Agreement between AFIP and the U.S. IRS. Argentina does have some contact with the U.S. IRS now through Argentina's membership in the Inter-American Center for Tax Administration (Centro Inter-Americano de Administracion Tributario, which includes Latin nations and Canada, Spain, Italy, France, Luxembourg and South Africa as members). But AFIP sees the U.S. IRS as a model to be emulated and seeks a closer working relationship through a bilateral accord. The Ambassador promised to follow up and facilitate direct contact between the two organizations.

¶17. (SBU) ACTION REQUEST: AFIP and its Customs affiliate are impressively professional GoA entities already cooperating closely with the USG on substantive CSI and anti-money laundering initiatives. AFIP has expressed interest in adding the Megaport initiative to this list, and anti-trademark piracy efforts are an additional area where Post wants to work closely with AFIP. Supporting AFIP's efforts to reduce rampant tax evasion in Argentina speaks to our mission's goal of helping ensure this nation's sustainable economic recovery from the 2002 economic crisis. Post requests U.S. Treasury support in facilitating AFIP's request for direct contact between AFIP senior management and appropriate IRS officials to discuss the potential to negotiate a bilateral cooperation and information exchange agreement.

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